

FIFTY YEARS OF RESEARCH ON
THE MINIMUM WAGE**HON. JIM SAXTON**

OF NEW JERSEY

IN THE HOUSE OF REPRESENTATIVES

Thursday, February 16, 1995

Mr. SAXTON. Mr. Speaker, for many years it has been a matter of conventional wisdom among economists that the minimum wage causes fewer jobs to exist than would be the case without it. This is simply a matter of price theory, taught in every economics textbook, requiring no elaborate analysis to justify. Were this not case, there would be no logical reason why the minimum wage could not be set at \$10 or \$400 per hour.

Historically, defenders of the minimum wage have not disputed the disemployment effects of the minimum wage. Rather, they argued that there was a redistributive effect that left the working poor better off. In other words, the higher incomes of those with jobs offset the lower incomes of those without jobs, as a result of the minimum wage.

Now, the Clinton administration is advancing the novel economic theory that modest increases in the minimum wage will have no impact whatsoever on employment. Some administration officials have even hinted that raising the minimum wage can raise employment. This proposition is based entirely on the work of three economists: David Card and Alan Krueger of Princeton, and Lawrence Katz of Harvard. Their studies of increases in the minimum wage in California, Texas, and New Jersey apparently found no loss of jobs among fast food restaurants that were surveyed before and after the increase.

It is not yet clear how or why Card, Katz, and Krueger got the results that they did. It is clear, however, that their findings are directly contrary to virtually every empirical study ever done on the minimum wage. These studies were exhaustively surveyed by the Minimum Wage Study Commission, which concluded that a 10-percent increase in the minimum wage reduced teenage employment by 1 to 3 percent.

The following survey of the academic research on the minimum wage is designed to give nonspecialists a sense of just how isolated the Card, Krueger, and Katz studies are. It will also indicate that the minimum wage has wide-ranging negative effects that go beyond unemployment. For example, higher minimum wages encourage employers to cut back on training, thus depriving low-wage workers of an important means of long-term advancement, in return for a small increase in current income. For many workers this is a very bad tradeoff, but one for which the law provides no alternative.

SUMMARY OF RESEARCH ON THE MINIMUM
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THE MINIMUM WAGE REDUCES EMPLOYMENT

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